

CITY OF OSKALOOSA  
OSKALOOSA, IOWA

MUNICIPAL WATER DEPARTMENT

FINANCIAL REPORT

June 30, 2004

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CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT

WATERWORKS OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Liebus	Chairman	July, 2004
Mike Vore	Secretary	July, 2008
John Fisher	Trustee	Resigned May, 2004
Joseph Ryan	Trustee	(Appointed July, 2004) July, 2006
Steven Yarkosky	Superintendent	Indefinite
Sheryl Tomlinson	Office Manager	Indefinite
Cindy Scholtus	Billings Clerk	Indefinite
Crystal Fairchild	Customer Service	Indefinite
Randall C. Stravers	Attorney	Indefinite

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
City of Oskaloosa Municipal Water Department  
Oskaloosa, Iowa

We have audited the accompanying financial statements of the City of Oskaloosa Municipal Water Department, as of and for the year ended June 30, 2004, which collectively comprise the Water Department's basic financial statements listed in the table of contents, of the business type activities, each major fund and the remaining fund information. These financial statements are the responsibility of Water Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial positions of the business type activities, each major fund and the remaining fund information of the City of Oskaloosa Municipal Water Department as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 8, 2004 on our consideration of the Water Department internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be used in conjunction with this report in considering the results of our audit.

The Water Department has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Oskaloosa Municipal Water Department's basic financial statements. The supplemental information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa  
October 8, 2004

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT  
STATEMENT OF ACTIVITIES AND CHANGE IN CASH BALANCE  
Year Ended June 30, 2004

	<u>Disbursements</u>	<u>Program Receipts Charges for Services</u>	<u>Net (Disbursements) Receipts</u>
Functions/Programs:			
Business-Type Activities:			
Water	\$ 1,291,213	\$ 1,386,266	\$ 95,053
General receipts:			
Unrestricted investment earnings			27,918
Rents collected			12,215
Miscellaneous			<u>69,774</u>
Total general receipts			<u>109,907</u>
Change in cash			204,960
Cash balance beginning of year			<u>1,409,292</u>
Cash balance end of year			\$ <u><u>1,614,252</u></u>

See notes to financial statements.

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT  
COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
Year Ended June 30, 2004

	Business-Type Activities		Enterprise Funds	
	Water Utility Operating	Designated for Improvements	Revenue Bond Sinking	Revenue Bond Reserve
Receipts:				
Use of money and property:				
Interest on investments	\$ 27,918	\$ -	\$ -	\$ -
Meter rent	10,118	-	-	-
House rent	360	-	-	-
Sprinkler and hydrant rent	1,737	-	-	-
	<u>40,133</u>	<u>-</u>	<u>-</u>	<u>-</u>
Charges for services:				
Meter water sales	1,261,539	-	-	-
Late and inspection fees	26,935	-	-	-
Tapping/connection fees	2,300	-	-	-
Labor charges	3,390	-	-	-
Sales tax collected	92,102	-	-	-
	<u>1,386,266</u>	<u>-</u>	<u>-</u>	<u>-</u>
Miscellaneous:				
Materials sold	3,974	-	-	-
Reimbursements/refunds	2,672	-	-	-
Sale of timber	50,000	-	-	-
Miscellaneous	13,128	-	-	-
	<u>69,774</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total receipts	<u>1,496,173</u>	<u>-</u>	<u>-</u>	<u>-</u>
Disbursements:				
Business type activities:				
Administration:				
Labor and related expenses	210,684	-	-	-
Health insurance	113,838	-	-	-
Publications	1,723	-	-	-
Audit fees	5,175	-	-	-
Legal fees	36	-	-	-
Computer expense	11,389	-	-	-
Insurance	42,951	-	-	-
Postage	9,979	-	-	-
Contract services	15,658	-	-	-
Maintenance	734	-	-	-
Telephone	10,304	-	-	-
Dues and subscriptions	3,656	-	-	-
Education/Seminars	213	-	-	-
Custodial expense	1,043	-	-	-

	Revenue Bond Improvement	Total
\$	- \$	27,918
	-	10,118
	-	360
	-	1,737
	-	40,133
	-	1,261,539
	-	26,935
	-	2,300
	-	3,390
	-	92,102
	-	1,386,266
	-	3,974
	-	2,672
	-	50,000
	-	13,128
	-	69,774
	-	1,496,173
	-	210,684
	-	113,838
	-	1,723
	-	5,175
	-	36
	-	11,389
	-	42,951
	-	9,979
	-	15,658
	-	734
	-	10,304
	-	3,656
	-	213
	-	1,043



CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT  
COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds			
	Water Utility Operating	Designated for Improvements	Revenue Bond Sinking	Revenue Bond Reserve
Disbursements (continued):				
Business type activities (continued):				
Administration (continued):				
Office supplies	\$ 4,631	\$ -	\$ -	\$ -
Miscellaneous supplies	873	-	-	-
Capital outlay and replacements	22,615	-	-	-
	<u>455,502</u>	<u>-</u>	<u>-</u>	<u>-</u>
Plant operation and maintenance:				
Labor and related expenses	151,185	-	-	-
Lab expense	4,859	-	-	-
Maintenance:				
Buildings	4,773	-	-	-
Wells	32,606	-	-	-
Grounds	12,014	-	-	-
Machinery	6,776	-	-	-
Education/Seminars	304	-	-	-
Utilities	62,481	-	-	-
Miscellaneous supply	500	-	-	-
Miscellaneous expense	789	-	-	-
Chemicals	62,506	-	-	-
Capital outlay and replacements	18,490	-	-	-
	<u>357,283</u>	<u>-</u>	<u>-</u>	<u>-</u>
Distribution operations:				
Labor and related expenses	129,605	-	-	-
Uniforms	2,068	-	-	-
Maintenance:				
Meters	15,074	-	-	-
Water system	50,135	-	-	-
Building	78	-	-	-
Machinery	1,362	-	-	-
Rent expense	7,800	-	-	-
Truck expense	3,459	-	-	-
Education/Seminars	495	-	-	-
Utilities	6,355	-	-	-
Small tools	4,234	-	-	-
Miscellaneous supplies	2,051	-	-	-
Gas	7,317	-	-	-

	Revenue Bond Improvement	Total
\$	- \$	4,631
	-	873
	-	22,615
	-	455,502
	-	151,185
	-	4,859
	-	4,773
	-	32,606
	-	12,014
	-	6,776
	-	304
	-	62,481
	-	500
	-	789
	-	62,506
	-	18,490
	-	357,283
	-	129,605
	-	2,068
	-	15,074
	-	50,135
	-	78
	-	1,362
	-	7,800
	-	3,459
	-	495
	-	6,355
	-	4,234
	-	2,051
	-	7,317

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT  
COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds			
	Water Utility Operating	Designated for Improvements	Revenue Bond Sinking	Revenue Bond Reserve
Disbursements (continued):				
Business type activities (continued):				
Distribution operations (continued):				
Miscellaneous expense	\$ 603	\$ -	\$ -	\$ -
Capital outlay and replacements	46,070	-	-	-
	<u>276,706</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other:				
Capital outlay:				
Other	30,977	-	-	-
Sales tax remitted	92,155	-	-	-
	<u>123,132</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt service:				
Bond redeemed	-	-	50,000	-
Interest paid	-	-	28,290	-
Miscellaneous expense	-	-	300	-
	<u>-</u>	<u>-</u>	<u>78,590</u>	<u>-</u>
Total disbursements	<u>1,212,623</u>	<u>-</u>	<u>78,590</u>	<u>-</u>
Excess (deficiency) of receipts over (under) expenditures	<u>283,550</u>	<u>-</u>	<u>(78,590)</u>	<u>-</u>
Other financing sources (uses):				
Operating transfers in (out):				
Enterprise:				
Revenue bond sinking	(78,807)	-	-	-
Water utility operating	<u>-</u>	<u>-</u>	<u>78,807</u>	<u>-</u>
	<u>(78,807)</u>	<u>-</u>	<u>78,807</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	204,743	-	217	-
Cash balance beginning of year	<u>712,768</u>	<u>562,000</u>	<u>6,524</u>	<u>78,000</u>
Cash balance end of year	<u>\$ 917,511</u>	<u>\$ 562,000</u>	<u>\$ 6,741</u>	<u>\$ 78,000</u>

See accompanying independent auditor's report.

<u>Revenue</u>	
<u>Bond</u>	
<u>Improvement</u>	<u>Total</u>
\$ -	\$ 603
-	46,070
-	276,706
-	30,977
-	92,155
-	123,132
-	50,000
-	28,290
-	300
-	78,590
-	1,291,213
-	204,960
-	(78,807)
-	78,807
-	-
-	204,960
50,000	1,409,292
\$ 50,000	\$ 1,614,252

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT  
COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES  
AGENCY FUNDS  
Year Ended June 30, 2004

	<u>Customer Deposits</u>	<u>Sewer Receipts</u>	<u>Total</u>
Receipts:			
Charges for services:			
Sanitary sewer receipts	\$ -	\$ 1,408,244	\$ 1,408,244
Miscellaneous:			
Customer deposits	<u>37,225</u>	<u>-</u>	<u>37,225</u>
Total receipts	<u>37,225</u>	<u>1,408,244</u>	<u>1,445,469</u>
Disbursements:			
Business type activities:			
Customers' deposits refunded	31,750	-	31,750
Sanitary sewer receipts remitted to City	<u>-</u>	<u>1,407,034</u>	<u>1,407,034</u>
Total disbursements	<u>31,750</u>	<u>1,407,034</u>	<u>1,438,784</u>
Excess of receipts over disbursements	5,475	1,210	6,685
Balance beginning of year	<u>50,670</u>	<u>108,206</u>	<u>158,876</u>
Balance end of year	<u>\$ 56,145</u>	<u>\$ 109,416</u>	<u>\$ 165,561</u>

See notes to financial statements.

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
BUDGET AND ACTUAL  
BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS  
Year Ended June 30, 2004

	<u>Budgeted Amounts</u>			Amounts Not
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Required to be Budgeted</u>
Receipts:				
Water:				
Use of money and property	\$ 39,580	\$ 38,671	\$ 40,133	\$ -
Charges for services	1,342,996	1,303,605	1,386,266	92,102
Miscellaneous	10,500	65,000	69,774	-
	<u>1,393,076</u>	<u>1,407,276</u>	<u>1,496,173</u>	<u>92,102</u>
Disbursements:				
Water	<u>1,353,083</u>	<u>1,288,367</u>	<u>1,291,213</u>	<u>92,155</u>
Excess of receipts over disbursements	\$ <u>39,993</u>	\$ <u>118,909</u>	204,960	(53)
Cash balances beginning of year			<u>1,409,292</u>	<u>(315)</u>
Cash balances end of year			\$ <u>1,614,252</u>	\$ <u>(368)</u>

See notes to financial statements.

Actual		Variances	
Net		Favorable (Unfavorable)	
<hr/>		<hr/>	
\$	40,133	\$	1,462
	1,294,164		(9,441)
	69,774		4,774
	<hr/>		<hr/>
	1,404,071		(3,205)
	<hr/>		<hr/>
	1,199,058		(89,309)
	<hr/>		<hr/>
	205,013	\$	<u>86,104</u>
	<hr/>		
	1,409,607		
	<hr/>		
\$	<u>1,614,620</u>		

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

The City of Oskaloosa Municipal Water Department is an independent department and a component unit of the City of Oskaloosa. The Waterworks operates under an appointed Board of Trustees. The Water Department provides water service to the residents of Oskaloosa, Iowa located in Mahaska County.

A. Reporting Entity

For financial reporting purposes, the Municipal Water Department of the City of Oskaloosa, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The Water Department has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Water Department, are such that exclusion would cause the Water Department's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Water Department to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Water Department. These statements do not include any other City of Oskaloosa funds or transactions.

B. Basis of Presentation

Government-wide Financial Statements – The statement of activities and change in cash balances report information on all of the nonfiduciary activities of the primary government, the Water Department, and any component units. For the most part, the effect of interfund activity has been removed from this financial statement. The statement demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identified with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program receipts are reported instead on general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the funds financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Water Department reports the following fund type:

Proprietary Funds:

Enterprise Funds - The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.



CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

B. Basis of Presentation (continued)

Additionally, the Water Department reports the following fund type:

Fiduciary Funds:

Agency Funds are utilized to account for monies and properties received and held by the Waterworks in a trustee capacity as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Basis of Accounting

The Municipal Water Department maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Water Department are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Water Department's Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds, except agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities.

Note 2. Cash and Pooled Investments

The Water Department's deposits at June 30, 2004 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Water Department is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Department's Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investments companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Water Department investments, held in financial depositories, are not subject to level of risk categorization.

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Note 3. Revenue Bonds Payable

Annual debt service requirements to maturity for the revenue bonds is as follows:

Year Ending June 30,	Revenue Bonds		
	Principal	Interest	Total
2005	\$ 55,000	\$ 25,890	\$ 80,890
2006	55,000	23,223	78,223
2007	60,000	20,527	80,527
2008	60,000	17,528	77,528
2009	65,000	14,498	79,498
2010	70,000	11,182	81,182
2011	70,000	7,578	77,578
2012	<u>75,000</u>	<u>3,938</u>	<u>78,938</u>
Total	\$ <u>510,000</u>	\$ <u>124,364</u>	\$ <u>634,364</u>

The resolution providing for the issuance of the revenue bonds include the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activity.
- b) Annually the Water Department shall generate "net revenues", as defined by the Revenue Bond agreement, equal to at least 125% of the average annual principal and interest installments on the total Bond issue and a reserve for the payment of principal and interest on other bonds.
- c) A Sinking Fund shall be established into which there shall be set aside from future net revenues of the Utility, a portion sufficient to pay interest and principal as they become due. The minimum amounts set aside into this fund shall not be less than 1/6 of interest coming due on the next succeeding interest payment date and 1/12 of principal of Bonds maturing on June 1 of the next succeeding principal payment date. All payments shall be made in equal installments on the first day of each month.
- d) A Principal and Interest Reserve Fund shall be created with a sum of equal to the lesser of (i) maximum amount of principal and interest coming due in any succeeding fiscal year, (ii) 125% average principal and interest becoming due in any succeeding fiscal year or (iii) 10% of the original principal. This balance shall remain at this level.
- e) An Improvement and Extension Fund shall be created with a sum of \$50,000. This balance shall remain at this level.

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Pension and Retirement Benefits

The Water Department contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Waterworks is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Water Department's contribution to IPERS for the years ended June 30, 2004, 2003, 2002 and were \$24,451, \$23,255, \$22,096, respectively, equal to the required contributions for the year.

Note 5. Compensated Absences

Water Department's employees accumulate a limited amount of earned but unused vacation, sick leave and comp hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Water Department until used or paid. The Water Department's approximate liability for unrecognized earned compensated absences is as follows:

<u>Type of Benefits</u>	<u>Amount</u>
Vacation	\$ 14,363
Sick Leave	40,165
Comp	<u>1,243</u>
Total	<u>\$ 55,771</u>

This liability has been computed based on rates of pay as of June 30, 2004.

Note 6. Risk Management

The Oskaloosa Municipal Water Department is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Water Department assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7. Operating Lease

The Water Department is leasing a building under a lease agreement which provides for monthly rental payments of \$600. The lease expires on July 31, 2004. The rental payments disbursed during the year ended June 30, 2004 totaled \$7,800.

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 8. Sewer Receipts

The Water Department assesses and collects sewer charges for the City of Oskaloosa, Iowa. The receipts from collections from customers and remittances to the City of Oskaloosa are accounted for in the Agency - Sewer Receipts Fund.

Note 9. Commitments and Contingencies

In January, 2002 the Water Department implemented a plan to self-fund the increase in their out of pocket and deductible limits of their health insurance policy for all eligible employees. The maximum annual calendar year exposure to the Waterworks would be \$15,000 of which \$1,000 have been paid in claims as of June 30, 2004. The maximum remaining contingent liability as of June 30, 2004 is \$14,000.

Note 10. Subsequent Events

On August 12, 2004, the Board approved contracts totaling \$349,211 for water treatment plant improvements and water well maintenance.

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT

SCHEDULE OF INDEBTEDNESS  
Year Ended June 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>
Revenue Bonds:					
Water	Sept. 11, 1997	4.4 - 5.25	\$ 780,000	\$ <u>560,000</u>	\$ <u>-</u>

See accompanying independent auditor's report.

<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ <u>50,000</u>	\$ <u>510,000</u>	\$ <u>28,290</u>	\$ <u>-</u>

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT

SCHEDULE OF BOND MATURITIES  
June 30, 2004

Year Ending June 30,	Revenue Bonds	
	Water	
	Issued September 11, 1997	
	Interest Rate	Principal
2005	4.85 %	\$ 55,000
2006	4.90	55,000
2007	5.00	60,000
2008	5.05	60,000
2009	5.10	65,000
2010	5.15	70,000
2011	5.20	70,000
2012	5.25	75,000
Total		\$ 510,000

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Waterworks Trustees:  
City of Oskaloosa Municipal Water Department  
Oskaloosa, Iowa

We have audited the financial statements of the Municipal Water Department, a component unit of the City of Oskaloosa as of and for the year ended June 30, 2004, and have issued our report thereon dated October 8, 2004. Our report expresses an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts non-compliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Governmental Auditing Standards.

Comments involving statutory and other legal matters about the Department's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Water Department. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Water Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Water Department's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.



A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe the condition reported in the Schedule of Findings is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-03.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Oskaloosa and University Park and other parties to whom the Water Department may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Water Department during the course of our audit. Should you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa  
October 8, 2004

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT

SCHEDULE OF FINDINGS  
Year Ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-03 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The general accounting/general ledger/journal entry functions are not separate from the payable function.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Water Department should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this, where practicable.

Conclusion - Response accepted.

CITY OF OSKALOOSA  
MUNICIPAL WATER DEPARTMENT

SCHEDULE OF FINDINGS  
Year Ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-03 Official Depositories - A resolution naming official depositories has been approved by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-03 Certified Budget - Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted in the business type activities function.
- II-C-03 Questionable Disbursements - No disbursements were noted that might not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.
- II-D-03 Travel Expense - No disbursements of the Water Department's money for travel expense of spouses of the Water Department's officials or employees were noted.
- II-E-03 Business Transactions - No business transactions between the Water Department and the Water Department's officials or employees were noted.
- II-F-03 Bond Coverage - Surety bond of Water Department officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-03 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-03 Revenue Bonds - The Water Department has established and funded the sinking, reserve and improvement accounts as required by the water revenue bond resolution.
- II-I-03 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Water Department's investment policy were noted.

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